

EAP Task Force

WORKSHOP ON ECONOMIC INSTRUMENTS IN THE NIS THIRD MEETING OF NIS ENVIRONMENTAL FINANCING NETWORK

28-29th April, 1999

Moscow, Russian Federation

SUMMARY OF THE DISCUSSION

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Workshop on the Use of Economic Instruments in NIS and Third Meeting of the NIS Environmental Financing Network

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Summary of the Discussion

Introduction

1. The Workshop on the Use of Economic Instruments in NIS and the Third Meeting of the NIS Environmental Financing Network, organised under the auspices of the Environmental Action Programme Task Force, were attended by over 100 participants from NIS and OECD member countries (a list of participants is attached). The participants included representatives of the 12 New Independent States (NIS)¹ (officials from environmental agencies and funds as well as experts involved in the area of economic instruments and environmental financing), European Commission and western environment agencies (Denmark, Germany, Hungary, the Netherlands and the USA (represented by both the USEPA and the USAID). In addition, the World Bank, the Regional Environmental Centre for CEE and the private sector (consultancy firms active in the NIS region) participated in the meeting. From the Russian side, several governmental agencies, environmental institutions and NGOs were represented. The meeting was hosted by the State Committee for Environmental Protection of the Russian Federation and was opened by Mr. Viktor Danilov-Danilian,, chairman of the Committee.
2. The objectives of the two-day meeting were:
 - to discuss the experience from implementing economic instruments (EIs) in the NIS, CEE and OECD countries and launch the preparation of a Survey on the Use of Economic Instruments for Pollution Control and Natural Resources Management in NIS;
 - to identify main obstacles and effective measures for strengthening environmental financing in the NIS;
 - to discuss the EAP Task Force Work Programme on environmental financing to better respond to the needs of the NIS countries;
 - to serve as a forum for facilitating the cooperation in the area of environmental financing among NIS, the international donor community, IFIs and experts;
 - to discuss the possible inputs from the meeting to a high level meeting to be organised within the framework of the EAP Task Force, of NIS Environment and Economy Ministers in October 2000, in Almaty, Kazakhstan.

The Workshop on the Use of Economic Instruments in NIS

3. After the new policy and environmental financing parts of the Task Force Programme were presented, a series of presentations were made on the definitions, use and effectiveness of EIs as a tool of environmental policies which aimed at familiarizing the participants with the experience of OECD and CEE countries as well as selected NIS (Georgia and Ukraine) in this area of policy work. Experience from donor programmes (TACIS and USAID) supporting the development of EIs in the NIS was also presented. The introductory part was followed by a discussion on the achievements in and obstacles to applying EIs in the NIS as well as the possible ways to deal with them under the current economic conditions. Some of the major issues raised during the discussion were:

¹ The 12 NIS members of the EAP Task Force are: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

- the definitions and perceptions of the Polluter Pays Principle in the NIS context (e.g. the polluter must pay for the damage done to the environment in Georgia (the damage is assessed against the basis of zero risk to human health) vs. the polluter must pay the costs of reducing pollution to levels defined in laws/regulations in OECD countries);
 - the role of the EIs in NIS (they have little incentive role and serve primarily revenue-raising purposes);
 - relations between environmental policies, the legal framework, economic instruments and other instruments (lack of clear targets in environment policies affects the possibility for designing appropriate charge base, no differentiation of policy instruments to combat different types of pollutants, very limited use of voluntary and information disclosure based instruments);
 - the design of the charge and tax system (it is characterised by low rates imposed on a significant number of pollutants, complexity of tax/charge rates; charge rates are differentiated by geographical areas which is controversial, etc);
 - the effectiveness of EIs (even though the revenue raising function prevails in the NIS it is severely affected by factors such as low collection rates, the problems with monitoring and enforcement procedures as well as the existence of non-monetary transactions in the NIS, in several countries no assessment of the effectiveness of the EIs is carried out);
 - the use of the revenues for general vis-à-vis environmental purposes (earmarking).
4. The afternoon session of the first day was dedicated to launching the Survey on EIs in the NIS. The survey is to be the first of this kind in the NIS. It is modelled on the questionnaire developed by the OECD and later adapted and adjusted for a similar survey which has just been finalised in the CEE region. This survey will provide the opportunity for a cross-country comparison and will facilitate the exchange of experience and co-operation among NIS and between NIS and other countries in the context of the EAP Task Force. It will provide the basis for developing recommendations on how the effectiveness and efficiency of EIs can be enhanced. The Survey can also serve as a baseline in future studies and can be used in assessing progress in the development and effectiveness of economic instruments in the region.
 5. The Survey was broadly discussed and a general agreement was reached as to its contents and the practicalities relating to its implementation. A key concern which was raised by the NIS experts was a limited human capacity to collect, and in particular analyse, all necessary information as well as very restricted access to data and information from the statistical offices and other sectoral agencies. Responding to this concern, it was suggested that a model country report on EIs could be prepared by a small team of experts. At the same time, the team would be available for visiting other NIS to provide additional assistance in preparing the individual country reports. This should raise the quality of the final product and help to build the capacity in the NIS for strengthening the effectiveness of existing EIs and the elaboration of new, more effective ones. Following on this idea a discussion has been launched with one donor agency to support such team of experts. Participants also stressed the need for analysing the use of EIs at the sub-national level and its relations for the enforcement and compliance issues. It was pointed out that the forthcoming meetings on local and regional environmental action programmes in the NIS (organised by the EAP Task Force, on 24-26th May, 1999, in Odessa, Ukraine) and on enforcement and compliance with environmental requirements (to be held on 23-24th September, 1999 in Chisinau, Moldova) will provide the opportunity to include these issues into the analysis.
 6. It was agreed that the Delegates would provide additional comments to the questionnaire by the 8th of May and its revised version would be mailed shortly afterwards, together with the summary of the discussions. The Survey is expected to be completed by the end of 1999. The final draft of the survey will be presented and discussed at the next workshop on economic instruments in the NIS to be held in February 2000.

7. At the meeting several copies of OECD documents on EIs were distributed. The World Bank offered to provide additional reports with experience on EIs from other parts of the world. At the same time, however, NIS delegations raised the problem of lack of availability of state-of-the-art information and documentation on the EIs in Russian. To this end, a discussion is underway for translating the REC survey in EIs in CEE into Russian. The idea of translating the most recent survey on EIs in OECD countries into Russian might help to fill the gap.

Third Meeting of the NIS Environmental Financing Network

8. The NIS Environmental Financing Network² had its third meeting on 29 April 1999. Previous meetings sought to provide a forum for NIS representatives to discuss the role and operations of Environmental Funds in the region. The major objective of the meeting in Moscow was to continue this tradition and update the participants on the work that has been done on Environmental Funds in the NIS as part of the networking activities. However, the focus of the Network has been expanded to allow for a discussion of a broader range of environmental financing issues, in addition to Environmental Funds. While it is recognised that Environmental Funds are one of the most significant sources of financing of environmental investments in the NIS countries, recent economic developments and subsequent analyses suggest the need to explore and make use of other financial instruments, both domestic and foreign.
9. The EAP Task Force Secretariat presented the major findings of the Survey on Environmental Funds (EFs) in CEE and NIS countries. The results of two major technical assistance projects on strengthening EFs in the NIS were also presented at the meeting, namely a Danish-Russian project on strengthening the EFs system in Russia and a TACIS-supported project on strengthening the Kyrgyz National Environmental Fund. Key issues and lessons learned, relevant to all NIS countries, were highlighted and put as issues for discussion later in the day.
10. During the discussions on the second day participants shared their understanding of key challenges and opportunities facing environmental funds and other financing mechanisms in the transition period. They also had the opportunity to identify and prioritize options for policy, institutional and financing improvements that can lead to more effective environmental investments in the NIS region. The representative of Tajikistan presented his country's major environmental problems and the obstacles it faces in developing and implementing effective environmental policy in the current political and economic situation. He called upon bilateral donors, the IFIs, and international organisations to strengthen their cooperation with Tajikistan and provide support for the policy and institutional reform in the country, as well as for environmental investments. One particular issue, that came into focus and raised a lot of questions, was the system of pollution charge offsets where enterprises are legally allowed to negotiate with the relevant environmental authorities and can be exempt from paying environmental charges upon commitment to spend this money on internal environmental projects. This practice of offsetting pollution charges seems to be widely spread in some NIS countries as part of the process of non-monetarisation of their economies. The Secretariat made a clear statement on this issue, pointing out some of the major dangers related to the acceptability of this type of economic relations in countries in transition, such as: offsetting charges contribute to the erosion of fiscal discipline and put additional pressure on the already severe fiscal imbalances; they provide incentives for tax evasion and little incentive for pollution reduction; they have distortionary effects on the efficiency of allocation of public resources to environmental projects; they impede public control of public money used by enterprises. Some of the countries are getting aware that this practice should be gradually abandoned. In Russia, for example, the whole system of pollution charges, their rates and the charge offsetting practice need to be re-examined, particularly in light of the introduction of the new tax system. This will help improve fiscal discipline

² Meetings of the Network (previously known as NIS Environmental Funds Network) were held in Almaty, in November 1996 and in Kiev in December 1997.

and increase enterprises' responsibility for the effectiveness of environmental measures they undertake.

11. The major results of the small group discussions, with a direct relevance for the future work of the Task Force, were:
 - there is an urgent need to analyse the system of offsetting pollution charges in the NIS and their relation to the level and nature of environmental investments;
 - another important issue is looking at the costs of degradation and benefits of environmental measures in the NIS, the results of which can serve as a basis for dialogue between the Ministries of Environment and the Ministries of Finance and Economy on issues of crucial importance in environmental policy;
 - EFs in the NIS still have a long way to go and there is clearly room for significant improvements where Funds need help in strengthening their performance and efficiency in allocating the scarce financial resources made available to them (Ukraine requested assistance on work they have started on the National Environmental Fund; an in-depth review of the Kazakh National Environmental Fund is envisaged to be conducted, etc.)
 - several countries (Georgia, Uzbekistan and Moldova) expressed their interest and willingness to participate in a project on developing environmental financing strategies for their countries;
 - there is a huge need for further involvement of the general public in shaping environmental policies and for the public to be engaged in and informed about decisions at earlier stages.
12. During the meeting, the representatives of the USEPA presented a project on establishing Credit Enhancement Fund for Russia (where the Fund will guarantee official debt in the form of bonds, and will provide financing mainly for environmental projects and more specifically energy efficiency projects). There is a need to study the project in detail as it is a tool that could provide new opportunities for financing environmental investments in Russia although in the current economic situation in Russia, the Fund is not expected to become operational before at least another 2 years. The US delegation presented also another project financed by USAID. The "Ecolinks" project focuses on the development of practical, market-based solutions to industrial and urban environmental problems in Central and Eastern Europe and the New Independent States. The program which promotes partnerships linking regional businesses, local governments, and associations with US counterparts will be helpful for identifying and remedying environmental problems through increasing trade and investment in environmental goods and services.
13. Participants expressed their appreciation of the work within the Network and strongly supported its continuance. The next meeting of the Network could be organised, as in this case, back to back with the workshop on economic instruments in the NIS, which is expected to be held in February 2000.

Evaluation of the Meeting

14. As is usually done for the EAP Task Force events, the participants were asked to evaluate the process and the contents of the meetings. Participants indicated that majority of the meetings' objectives were met. It became evident, however, that during the meeting there was not enough time to discuss in depth all the issues/problems/projects that the participants were interested in. The assessment

underscored the need for more frequent meetings on these and related topics. Participants assessed that almost all of the information presented at the meeting will be useful in their future work and the majority of participants were highly satisfied with the organisational aspects of the meeting. The role of the Russian State Committee for the Environment was particularly appreciated in this regard.